



## Commonwealth of Kentucky Public Protection Cabinet

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### **Bankers Offer Insight on Changing Regulatory Environment** *Kentucky Bank Regulator Joins in Release of Report and Survey Results*

**FRANKFORT, Ky. (Sept. 25, 2014)** – The Department of Financial Institutions (DFI) joins other state bank regulators and the Federal Reserve System to release *Community Banking in the 21<sup>st</sup> Century: Opportunities, Challenges and Perspectives*, a report that details conditions facing today's community bankers.

The report can be found at <http://www.stlouisfed.org/CBRC2014/town-hall.pdf>.

To solicit the views of the industry, state regulators in 30 states held town hall meetings with more than 1,300 community bankers from April to July. The town hall summaries within the publication provide insight from the industry on the state of community banks.

"Kentucky bankers have been forthright in sharing their successes and concerns through these town hall meetings. This report shows our banker responses side-by-side with those from bankers in 29 other states, which gives us a broad perspective nationally on the state of community banking today," said DFI Commissioner Charles Vice.

DFI hosted three regional town hall discussion meetings, in Morehead, Dawson Springs and Bardstown, that drew a total of 34 bankers. The meetings revealed:

- Opportunities include increased loan demand, expansion for some, and finding ways to improve staff efficiency.
- Competition includes credit unions, national banks, regional banks, the Farm Credit System and other nonbank entities.
- Mobile and online banking services and other technology-based products and services are needed in order to compete, but there are many hidden costs.
- New documentation requirements have removed some of the personal relationship from banking and encourage standardized products instead of customized products.
- A regulatory environment that is constantly changing poses challenges – and staffing costs have increased for banks as they work to stay on top of new rules.

A comprehensive survey administered by state bank commissioners in 38 states, including Kentucky, was added in this second community banking report. More than 1,000 community bankers participated, providing key data that helps quantify the challenges facing community banks today, and outlining how these banks are responding to market conditions. The Federal Reserve and the Conference of State Bank Supervisors (CSBS) selected the questions and compiled the results of the nationwide survey.

The Fed and CSBS focused a significant number of questions on mortgage lending, since bankers have been vocal about the associated compliance burdens. The results provide a glimpse into the industry's thinking:

- The respondents were largely state-chartered banks operating in a single state and engaging in traditional banking activities.
- While the ability-to-repay (ATR) and the qualified mortgage (QM) rules have only recently taken effect, bankers have made the initial business decision on how they would respond to the new rules.
- Banks continue to see opportunity in residential mortgage lending but have a mixed view of non-QM lending.
- Assessing the ATR and QM standards against current exposures, bankers generally identified a low level of nonconformance, suggesting the rules may generally be in line with bank practices while still requiring significant changes in operations.

The *Community Banking in the 21<sup>st</sup> Century: Opportunities, Challenges and Perspectives* report was produced and released in conjunction with the second annual Community Banking in the 21<sup>st</sup> Century research and policy conference, hosted Sept. 23-24 by the Fed and CSBS at the Federal Reserve Bank of St. Louis. Kentucky bankers who attended DFI's town hall meetings were entered into a "golden ticket" drawing for the opportunity to attend the national conference. Paul Goodpaster, director, executive vice president and chief operating officer of The Citizens Bank in Morehead, was selected.

"Our banks play a vital part in our communities, as well as in the local and national economy," said Vice. "I hope this report, along with the research papers presented at the CSBS-Fed conference, will result in better national financial policy that recognizes that vital role."

For more information about the conference, including the research papers that were presented and keynote speaker remarks, see <http://www.stlouisfed.org/CBRC2014>.

DFI, <http://kfi.ky.gov>, is an agency in the Public Protection Cabinet. For more than 100 years it has supervised the financial services industry by examining, chartering, licensing and registering various financial institutions, securities firms and professionals operating in Kentucky. DFI's mission is to serve Kentucky residents and protect their financial interests by maintaining a stable financial industry, continuing effective and efficient regulatory oversight, promoting consumer confidence, and encouraging economic opportunities.

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